Postal Regulatory Commission
Submitted 3/30/2012 4:22:41 PM
Filing ID: 81803
Accepted 3/30/2012

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2011	Docket No. N2012-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILLIAMS TO QUESTION FROM COMMISSIONER TAUB DURING MARCH 20, 2012 ORAL CROSS-EXAMINATION

The United States Postal Service hereby provides the response of witness David Williams to a question posed by Commissioner Taub during oral cross-examination in this docket on March 20, 2012. Citation to the question is provided; the question is then paraphrased and followed by the response of witness Williams.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony F. Alverno, Jr.
Chief Counsel, Global Business

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2998; Fax -5402
March 30, 2012

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WILLIAMS TO QUESTION POSED DURING MARCH 20, 2012 CROSS-EXAMINATION

Tr. Vol. 2 at 422

Question:

Could you please provide a summary of the AMP results?

RESPONSE

Please see the attached spreadsheet for a summary of the cost estimates generated by the facility consolidation studies announced on February 23, 2012. The following observations, in conjunction with my response to interrogatory APWU/USPS-T1-26, are intended to shed additional light on why an aggregation of facility consolidation study figures does not produce a reliable estimate of network rationalization savings.

There are material difference between aggregate AMP savings and overall network savings.

The AMP review process is a site-specific analysis of the potential savings associated with the consolidation of site-specific operations. The role of each individual AMP proposal is not to assess what the network change would be, but rather to evaluate on a site-by-site basis whether there is a business case to support consolidation of mail processing operations, irrespective of whether a proposed consolidation is a stand-alone initiative or part of a network-wide consolidation program. There are major areas of savings that the AMP process does not examine. In the current context, the AMP and other facility consolidation studies examined the potential cost savings assuming the

implementation of the service changes described in the Request and my testimony, USPS-T-1.

When calculating AMP savings, conservative assumptions are applied in order to isolate the specific business case associated with the transfer of operations. For example, an AMP package does not assess any estimated increase in productivities for any operations that remain behind in the consolidated site or for any operations that are not gaining additional volume at the gaining site. As outlined in Witnesses Bradley, Smith, and Neri's testimonies, these operations are expected to yield savings associated with a service standard change. However, they were removed from consideration in the AMP in order to ensure that a valid business case exists to perform the consolidation, not as a result of the service standard change.

Likewise, any facility that was not evaluated, for example, as part of the AMP study process (a site that neither gained nor lost workload) is not evaluated for any estimated increase in productivities based on the operational changes proposed. Putting aside aggregate differences that might result from a smaller number of consolidations being implemented that was assumed at the beginning of this docket, the limited scope of the AMP packages, therefore, will be visible in the difference between the cumulative total of estimated cost savings generated by the individual AMP packages and the aggregate cost savings estimate filed in support of the Request in this case.

The AMP post-implementation reviews (PIRs) provided in USPS Library

Reference N2012-1/NP12 confirm the conservative nature of the AMP cost savings estimate methodology. Cumulatively, the 24 final PIRs in that library reference estimate a savings of $345.3 million, compared to the estimated AMP savings of $71.6 million. The Postal Service recognizes the value in analyzing potential network-wide cost changes, even if all such costs cannot be measured with absolute precision in advance. Accordingly, the Postal Service has presented the "full-up" cost estimates developed by witnesses Bradley (USPS-T-9) and Smith (USPS-T-10), based on the testimonies of witnesses Neri (USPS-T-4), Bratta (USPS-T-5) and Martin (USPS-T-6).

The February 23, 2012 AMP consolidations in USPS Library References N2012-/73 (and NP16) represent only approximately 35 percent of total workload in the mail processing network. In addition to those sites that were announced, the Postal Service expects savings associated with the realignment of mail processing operations in every facility in the network due to the operational changes resulting from the service changes proposed, as detailed in the expected productivity changes estimated by witness Neri (USPS-T-4).

AMPs should not be considered full-up network operational impact assessments. In development of the cost estimates of the AMPs, local, area and headquarters managers jointly estimate the immediate workhour, complement and transportation requirements in order to complete the consolidation of operations within one year. This leads necessarily to conservative estimates of cost savings within these packages. For

example, the Postal Service's case envisioned an environment in which facilities that were consolidated would be removed from the Postal Service network in the full-up network environment. However, in the short-term, the AMPs may reflect maintaining that facility for local transportation purposes. In the long-run, full-up network, the Postal Service would not be maintaining significant square footage for a small cross-dock operation.

There are known areas of costs and savings that the Postal Service has not evaluated through the AMP process, but that were included as part of the analyses presented by witnesses Bradley, Smith, and Neri Namely, the Postal Service does not include the savings associated with premium pay reductions, rents or rental opportunity savings, additional DPS sorting, or service-wide benefits as part of the wage rates utilized in the AMP packages. In addition, the Postal Service has not included the additional air cost into the AMP packages. There are also areas where an estimate of savings is made in the AMP packages. However, the Postal Service is persuaded that the vast majority of these savings have not been captured through the calculation process. Examples include utilities, supplier and contractor costs, parts and supplies, reductions in outgoing secondary sortation and the productivity improvements associated with migrating additional volume manually processed in delivery units to automated letter of flat processing. Also, where the gaining sites currently utilized Upgraded Flats Sorting Machine 1000s, the productivity gains associated

with migrating these volumes to an Automated Flats Sorting Machine 100 were not taken into account.

Specific description of AMP savings calculations: mail processing workhours moving from the losing site to the gaining site.

The calculation of the mail processing workhours savings in the AMP proposals is based on Breakthrough Productivity Initiative (BPI) calculations. To calculate the savings, local, Area, and HQ personnel determined which operations would be moving to the gaining site. Generally, the savings were calculated by evaluating the volume movement at an operation-by-operation level and estimating the required workhours at the gaining site assuming an 8 BPI percentage increase above the gaining site's current productivity for each MODS operation. When calculating operational costs in this manner, some MODS operation productivity assumptions led to results that were jointly determined by local, Area, and Headquarters experts to not be reasonable. For example, when applied to the operational level at some sites, BPI scorecards indicate a 200 percent efficiency score in some operations and a 10 percent efficiency score in others. This, in most cases is a result of a discrepancy between the identity of the MODS operation in which the mail volume is being processed and the specific MODS operation in which the employees are recorded as being employed at the time. The overall sum of total hours being used in a plant is fed into MODS by the Time and Attendance Collection System (TACS) and the number of pieces processed on equipment is fed by actual piece counts

determined by the End Of Run (EOR) system. BPI scorecards are fed by these systems. The total MODS hours and pieces from EOR are extremely accurate when aggregated at the facility level, however they can yield unexpected results when disaggregating them to the operational level based upon MODS distribution.

In order to avoid calculation errors, a re-cast of the BPI scorecard was performed in each site. Rather than use an operation by operation comparison of productivities, the total workhours of a BPI category were spread among all of the operations in which a facility logged EOR volumes based upon the percentage of volumes used in each operation. This can be illustrated using the following general example. In processing facilities, employees do not regularly change their time card operations. For instance, it is common for mail processing clerks who report to and clock into MODS operation 918 (First Pass DPS) not to be clocked into MODS operation 919 (Second Pass DPS) before performing work in the latter operation. Therefore, at this level, the sum of these two operations may show that the hour distribution is 75 percent in 918 and 25 percent in 919 while the volume distribution at the plant is likely closer to 52 percent in 918 and 48 percent in 919. In each AMP, the total workhours for each BPI group (such as DBCS) were allocated to each operation based on the percentage of pieces associated with each operation, in order to obtain a more accurate operation-by-operation view of the processing costs. This is the basis for the site-by-site

differences in productivity application and why local, Area, and HQ knowledge are inserted into the calculations of each business case.

Consistent application of business rules was applied to the calculations and then a joint local, Area, and Headquarters review of the line-by-line calculations was performed to ensure an accurate representation of savings would occur. The starting algorithm was to apply an 8 point BPI increase above the gaining site's BPI performance for operations moving from the losing site to the gaining site for operations in Labor Distribution Codes (LDC) 11, 12, and 13. These operations were not capped or forced to be below current actual workhour usage. Therefore, if a gaining site had productivity in a specific operation which may have been more than 8 points lower than the losing site's productivity for that same operation, the calculation returned a greater workhour cost for transferring this operation to the gaining site than is currently incurred at the losing site. The calculations took relative productivity into account.

The estimated improvement in LDC 14 was based upon operational knowledge of field and headquarters mail processing management experts and past manual sortation reduction rates. Manual workload in BPI is applied by an annual survey performed by the local site rather than a piece count. Initial attempts at applying a consistent productivity improvement to manual piece counts yielded results that were not reasonable according to operational expertise of the local, Area and Headquarters officials. During these conversations, it was determined that a flat 3 percent reduction in workhours for

all transferred pieces would be a reasonable expectation of productivity improvement associated with these operations.

The LDC 17 improvement estimate was based upon operational expertise and some previous consolidation activity. A flat 50 percent absorption factor was the starting point for those operations that would be expected to move from the losing operation to the gaining operation. This absorption factor was based upon complement planning from managers that had recently overseen the implementation of previously approved AMP consolidations. The 50 percent absorption factor was modified on a site-by-site basis depending on mail handler BPI productivity, current overtime rates, and total Function 1 productivity. For example, if a gaining site demonstrated that the current BPI performance rates were high (above 75 percent), and the mail handler overtime rates were currently above 10 percent this was an indication that the facility may merit additional mail handler hours above what was initially proposed. Likewise, if a facility had low productivity rates and low overtime rates, this was an indication that fewer hours should be used in LDC 17 operations for additional volume. Automated Facer Canceller System operations were calculated using the same methodology as LDCs 11, 12, and 13 due to the similarity in data recording between MODS and EOR with these LDCs.

The estimates of LDC 18 workhours were based upon a 5 percent productivity increase above the gaining site's BPI calculations but were capped to not exceed current workhour expenditures. This is because LDC 18 hours are

not specifically tied to equipment utilization or volume levels, but are often operation, tour, and facility specific. These calculations were generally developed by applying local management's knowledge of both the gaining and losing site to determine the estimated impact.

Mail processing workhours staying in the losing site.

This is a significant source of difference between the aggregate AMP estimated savings and the financial calculations of overall network savings conducted by witnesses Bradley and Smith. Even though a relaxation of overnight service standards is demonstrated by witnesses Bradley, Smith, and Neri to result in a savings for mail processing operations throughout the network, the AMP process applies no productivity increases to workhours in the various losing sites. The AMP proposals are focused on the cost of moving operations to the gaining site and omit any savings that may occur at the losing site from other initiatives.

Mail processing workhours for operations currently at the gaining site**.**

Another significant source of difference between the aggregate AMP estimated savings and the financial calculations of witnesses Bradley and Smith is related to the non-impacted operations at the gaining site. No productivity increases were applied to operations at the gaining site which did not receive any volumes through an individual AMP proposal. Even though a relaxation of overnight service standards is demonstrated by witnesses Bradley, Smith, and

Neri to result in a savings for mail processing operations throughout the network, these savings were omitted from the AMP proposals in order to isolate the specific business case associated with the consolidation. Again, the purpose of the AMP proposal is to determine whether a business case exists for a particular consolidation, not to determine the final cost savings for that particular consolidation or for an overall network redesign.

For operations at the gaining site which received volume, there was an expected increase in the productivity for those operations due to economies of scale. The intent of the AMP study was to identify what that economy of scale result would be, understanding that, in many cases, there were multiple sites going into a single gaining site. Due to the operational change and associated cost savings at the gaining site discussed by witnesses Bradley, Smith, and Neri, the productivity improvement of 8 percentage points was applied to the gaining site for LDCs 11, 12, and 13. A 3 percent productivity improvement was applied to LDC 14 and no productivity improvements were applied to LDC 17 and 18 operations at the gaining site.

This approach presented a significant challenge to isolate the specific results of the impact associated with each individual consolidation. For example, the Denver, CO P&DC had a total of three AMP studies under concurrent examination into the gaining facility. In order to not double count the savings associated with applying the above methodology to each of the Alamosa, Colorado Springs, and Salina AMP worksheets, the gaining site's productivity

improvement for volumes remaining at the gaining site were spread equally among the workbooks. Therefore, a productivity increase of 8/3 or 2.66 percentage points was used in each AMP workbook. The purpose of this exercise was to isolate the specific savings associated with a site-by-site consolidation to ensure that the proper business case was made in each instance.

Management (PCES and EAS) savings calculations**.**

A reduction in authorized management positions was applied by the local sites when estimating the savings. In many cases, the sites have vacant management positions on the rolls but are covering these positions with detailed employees from other facilities, detailed craft employees (204b), or extra straight time supervisory hours. The reduction of authorized management positions in the workbooks was accompanied by a reduction of full-time equivalent supervisory or management hours. This explains why many AMP workbooks demonstrate a management savings, but an increase in management positions. The proposals indicate a need to fill an authorized position, however the net number of workhours used will decrease due to a reduction in detail, 204b, or extra straight time hours.

Labor rate calculations.

The AMP workbooks are populated with the paid per hour rate of a particular facility by LDC. These labor rates are the average cost of a fully loaded hour including overtime and benefits of a specific facility. The cost savings associated with operations and maintenance in the AMP packages are the current workhours multiplied by the current labor rates in the respective LDC and facility compared the proposed workhours multiplied by the current labor rates in the respective LDC and facility. Therefore, if an operation is transferred to a facility with higher labor rates, it is accounted for in the calculations. A transition to a higher percentage of flexible workforce or a reduction of night differential is not included in this calculation, and would yield savings above what is proposed in the AMP.

Maintenance calculations.

The basis of the maintenance calculations was provided under the supervision of Witness Bratta on a site by site basis. However, the estimates of workhours by LDC provided by Witness Bratta needed to be isolated and allocated to each business case. Using Denver as an example, the workhour estimates provided included the proposed workhours associated with all of the equipment for the consolidations into Denver. The workhour costs or savings were allocated to each of the Alamosa, Salina, and Colorado Springs proposals to provide a snapshot of the business case. These maintenance workhours were

allocated according to market share of the percentage of increased volume of the gaining site associated with each consolidation. The largest addition of volume reflected the largest percentage of increased cost or savings at the gaining sites. Losing sites maintenance costs were based upon remaining equipment set and percentage of the facility that would be retained for other usage such as Retail or BMEU. After these costs were incorporated into the proposal, local, Area, and headquarters experts reviewed for accuracy and validated the modeling assumptions. Where the locals demonstrated that the staffing was too high or too low, the proposals were adjusted to reflect a reasonable assessment of the maintenance hours required to implement the proposal.

Transportation calculations.

AMP transportation calculations were jointly developed by each Area and local transportation management experts. These costs were then sent to headquarters for review. During the review, headquarters officials reviewed the summary narrative to ensure that it appropriately addressed any increase or decreased the transportation for the proposed consolidation. Only those Highway Contract Routes or Postal Vehicle Service routes that were specifically related to each consolidation were reflected in the business case and were prepared as a “worst-case scenario” for the first year of operation. In most cases, very conservative transportation profiles were developed. These costs

did not include all savings or costs associated with a redevelopment of the entire network but were a reflection of each isolated business case.